



# The Annual Audit Letter for Cumbria County Council

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**Year Ended 31 March 2019**

**August 2019**



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Cumbria County Council (the Council), its subsidiaries (the Group) and Cumbria Local Government Pension Scheme (the Scheme) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council, Group, the Scheme and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Assurance Committee as those charged with governance in our Audit Findings Report on 26 July 2019.

## Our work

### Materiality

We determined materiality for the audit of the Group's financial statements to be £16,172,000 which is 1.75% of the group's prior year gross revenue expenditure. We determined materiality for the audit of the Scheme's financial statements to be £26,321,000, which is 1% of the Scheme's net assets as at 31 December 2018.

### Financial Statements opinion

We gave an unqualified opinion on the Council, Scheme and group's financial statements on 30 July 2019.

### Whole of Government Accounts (WGA)

We completed work on the Council's consolidation return following guidance issued by the NAO and submitted it on 30 July 2019.

### Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers for 2018/19.

We have concluded our work on the 2016/17 objection, which we did not uphold nor did we conclude it appropriate to issue a public interest report on the matter, with more detail provided on page 10. Following the release of our Statement of decision and explanation on 29th May 2019, we certified closure of the 2016/17 and 2017/18 audits on 3 July 2019.

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council, the Group' and Scheme financial statements, as set out in section two
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, known as the value for money conclusion, as set out in section three.

In our audit of the Council, Group and Scheme's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

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# Executive Summary

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<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our Audit Report opinion to the Council on 30 July 2019.
<b>Certification of Grants</b>	We also carry out work to certify the Council's Teacher's Pension claim. Our work on this claim is not yet complete and will be finalised by the 30 November 2019 deadline. We will report the results of this work to the Audit and Assurance Committee in our Annual Certification Letter.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of Cumbria County Council in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

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## Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit to you in July 2019, completing the audit in advance of the accelerated Local Government deadline of 31 July 2019, releasing your finance team for other work.
  - Sharing our insight – we provided regular Audit and Assurance Committee updates covering best practice and also shared our thought leadership reports.
  - Providing training – we provided your teams with technical update training on financial accounts and narrative reports.
- The Council and Scheme accounts were both compiled to a very high compliance standard. The respective finance teams have produced good supporting working papers and have also been responsive to our audit queries. A good achievement, especially in the context of two complex sets of statements.
  - We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
August 2019

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# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council, Scheme and Group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £16,172,000, which is 1.75% of the Group's prior year gross revenue expenditure. We determined materiality for the audit of the Council's financial statements to be £15,683,000, which is 1.75% of the Council's prior year gross revenue expenditure. We used this benchmark as, in our view, users of the Group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration.

We set a lower threshold of £784,000, above which we reported errors to the Audit and Assurance Committee in our Audit Findings Report.

In our audit of the Scheme's financial statements, we determined materiality for the audit to be £26,321,000, which was 1% of the Scheme's net assets as at 31 December 2019. We set a lower threshold of £1,316,000 above which we reported errors to the Audit and Assurance Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements, including the narrative report and the annual governance statement published alongside the financial statements to check they are consistent with our understanding of the Council and Group and with the financial statements on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council, Group and Scheme's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our audit work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, judgements and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals;</li> <li>analysed the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>During our testing we identified a number of journals which have a user ID that matches a member of the Council's IT department. Management confirmed that this was generated as a result of an IT upgrade in September 2018 and is isolated to the journal upload tool.</p> <p>We have performed additional testing of journal entries, given the identification of this journal control weakness as well as review processes. Our additional testing did not identify any journals that were not in line with expectation.</p>	<p>With the exception of the control weaknesses identified in Appendix B our audit work has not identified any issues in respect of management override of controls.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>The Council revalues its land and buildings on a rolling five-yearly basis, with a proportion of assets revalued each year. This valuation represents a significant estimate by management in the financial statements</p> <p>Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met;</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li>tested, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register; and</li> <li>evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>	<p><b>Conclusion</b></p> <p>Our audit work has not identified any issues in respect of valuation of land and buildings.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved, with £868 million in the Council's balance sheet as at 31 March 2019, and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</li> <li>• obtained assurances from the auditor of Cumbria Local Government Pension Scheme as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> <li>• reviewed the processes used by management in the evaluation of the impact of the McCloud judgment and the quantification of the potential impact on the financial statements, including how management confirmed the adequacy of work carried out by actuary;</li> <li>• assessed and challenged the relevance and reasonableness of all significant assumptions and methods used to generate the McCloud estimate by the actuary, including understanding how the organisation's workforce profile could affect this as the matter centres around age discrimination and potential increases in pension liability;</li> <li>• considered whether the estimate of the potential impact is in line with our expectations;</li> <li>• considered managements rationale for amending the financial statements for the potential impact (see Appendix C) calculated by Mercer and reviewed and agreed the updated statement of accounts.</li> </ul>	<p><b>Conclusion</b></p> <p>Our audit work has not identified any issues in respect of valuation of the pension fund net liability. The McCloud judgement was adjusted for by management in the final statement of accounts, to reflect developments in the case during June and July 2019 (see Appendix C).</p>

# Audit of the Financial Statements

## Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>The valuation of Level 3 investments is incorrect</b> Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments valuations lack observable inputs and require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved (£0.555 billion in the 2017/18 accounts) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p><b>Auditor commentary</b> In response to this risk we</p> <ul style="list-style-type: none"> <li>evaluated management's processes for valuing Level 3 investments;</li> <li>reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met;</li> <li>for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those figures to the values as at 31 March 2019 with reference to known movements in the intervening period; and</li> <li>in the absence of available audited accounts, we evaluated the competence, capabilities and objectivity of the valuation expert.</li> </ul>	<p>Our audit work identified an estimation uncertainty of £6.1 million in respect of the valuation of 12 investment manager portfolios that impact upon level 3 investments. The Scheme has not amended for this on the grounds of materiality.</p>
<p><b>Management override of controls</b> Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p><b>Auditor commentary</b> We have;</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals;</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>During our testing we identified a number of journals which have a user ID that matches a member of the Administering Authority's IT department. Management confirmed that this was generated as a result of an IT upgrade in September 2018 and is isolated to the journal upload tool. We performed additional testing of journal entries, given the identification of this journal control weakness as well as the review processes.</p> <p>Our testing in this area is complete and we have not identified any further issues in respect of this risk. We included a recommendation in our Audit Findings Report in relation to this issue and it is the same issue as identified on Page 9.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council and Group's financial statements on 30 July 2019.

## **Preparation of the financial statements**

The Council and Group presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Council and Group's Audit and Assurance Committee on 26 July 2019.

In addition to the key audit risks reported above, one unadjusted misstatement was identified during the 2018/19 audit, and is detailed in Appendix C of this report. The decision to not adjust does not impact upon our Audit Report opinion. This was reported to the Audit and Assurance Committee on 26 July 2019, with the reasons for non-adjustment on materiality grounds, included in the Letter of Representation.

Our control recommendations are detailed in Appendix B.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in and alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Pension scheme accounts**

We gave an unqualified Audit report opinion on the pension scheme accounts of Cumbria Local Government Pension Scheme on 30 July 2019. We also reported the key issues from our audit of the pension scheme accounts to the Council's Audit and Assurance Committee on 26 July 2019. Our work identified one estimation uncertainty of £6.1 million, relating to the valuation of level 3 investments. The Scheme have not adjusted for this issue on the grounds of materiality.

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which did not identify any issues for the group auditor to consider on 30 July 2019.

## **Other statutory powers**

We also have additional powers and duties under the Local Audit and Accountability Act 2014, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have concluded our work on the 2016/17 objection, which we did not uphold nor did we conclude it appropriate to issue a public interest report on the matter. The objection was in respect of alleged deficiencies in the arrangements of Cumbria County Council to secure value for money in 2016/17 on the Kendal Infrastructure Plan ('KIP') related capital projects, and in the Council's and its S151 Officer's oversight of the value for money provided by the Cumbria Local Enterprise Partnership. The Council has provided us with sufficient evidence to enable us to conclude that adequate value for money arrangements are in place on the KIP and on the related oversight of CLEP. However, we did identify areas for improvement and the Council has subsequently provided evidence of appropriate actions taken to address the 5 recommendations we raised.

Following the release of our Statement of decision and explanation to the objector on 29th May 2019, we certified closure of the 2016/17 and 2017/18 audits on 03 July 2019.

## **Certificate of closure of the audit**

We certified that we have completed the 2018/19 audit of the financial statements of Cumbria County Council in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## **Key findings**

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

## **Overall Value for Money conclusion**

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Medium term financial plan (MTFP) including service transformation</b></p> <p>The Council has faced significant reductions in funding in recent years, and the Council has dealt with this in a proactive way delivering significant savings since 2011. £16 million of savings were delivered in 2017/18. In 2018/19 savings of £34.6 million are required, and the Council is on track to deliver approximately 95% of the required savings. The budget gap in the Medium Term Financial Strategy is £37.8m up to 2022.</p> <p>We will review the progress in delivering financial targets and savings delivery plans as well as the broader financial management arrangements in place to support informed decision making and sustainable resource deployment.</p>	<p>The Council has a good record in achieving savings and when setting its previous seven annual budgets the Council has agreed £249 million of savings between 1 April 2011 and 31 March 2019. The Council delivered £35.6 million of savings against a plan of £38.8 million for 2018-19, with the £3.2 million shortfall occurring as a result of funding higher children’s care costs. The Council plans to bridge this gap in 2019/20 and beyond. The Council continues to face significant financial challenges. The MTFP was updated in February 2019, and this shows that savings of £22.7 million have been identified for 2019/20. The savings still to be found to balance the budget over the three year period of the MTFP up to 2021/22 is £37.8m in total.</p> <p>The Council has a General Fund balance as at 31 March 2019 of £15.056 million (2018: £10.472 million) and useable earmarked reserves of £53.813 million (2018: £65.457 million) giving total usable reserves of £68.869 million. Over the last 3 years the Council’s GF and earmarked reserves have decreased by 6%, and now represent 17.7% of net expenditure. The school earmarked reserves have increased in year, from £1.685 million to £2.356 million. Overall, the DSG related reserves have negative balances of £1.485 million due to the ring fenced dedicated schools grant overspend of £3.553 million. This largely relates to the high needs services allocation. The Council has, along with many other Councils, provided DfE with a deficit forecast plan up to 2021/22. The Council has invited the DfE to further dialogue on this issue, to explore the causes of the pressures on the High Needs Block, also experienced elsewhere in the country and the potential long term solutions for a rural county.</p> <p>The capital outturn for 2018/19 was £132.7 million against £145.5 million revised budget. All of the £13 million net slippage on the capital programme has been carried forward and re-profiled over future years. The Council’s involvement in wider economic regeneration schemes including the Borderlands Initiative and the St Cuthbert’s Garden Village further highlights the requirement to be innovative in its approach to spending and generating income in the medium to long term.</p> <p>The Council has strong reporting and monitoring arrangements in place. Its medium term financial planning, budgeting and identification of saving plans are agreed at a corporate level, by senior officers and Members. Additional pressures and progress against efficiency savings requirements are reported throughout the year and actions agreed to close the budget gap as required. The MTFP (2019-2022) maintains the General Fund Balance at £15 million throughout the period of the MTFP. The General Fund Balance was increased by £5 million to £15 million in setting the 2019/20 Budget.</p> <p>Whilst the Council has a good record in achieving savings these savings are now becoming increasingly difficult to identify with the Council having limited scope to generate new income streams. The Councils existing commercial group activities through the Cumbria County Holdings Limited Group are showing signs of weakening underlying performance. This has resulted in a significant reduction in the dividend received by the Council with £0.75m being received in 2018/19 compared to a dividend of £1.5m in 2017/18.</p> <p>Whilst reducing the MRP charged to the General Fund and the refinancing of the CNDR PFI does improve the reserves position, this is short-term non-recurring solution to medium to long term financing challenges. Looking forward, the Council should seek to identify opportunities to reduce expenditure or generate further income through long-term focussed initiatives rather than reliance on short term one off accounting adjustments.</p>	<p><b>Auditor view</b></p> <p>Overall, the Council has effective financial planning and financial management arrangements in place. For example, the reserves position is monitored and reported formally to Cabinet on a quarterly basis. Additionally, in preparing the Annual Budget and MTFP, a full review and forecast of total reserves is undertaken.</p> <p>The Council should also continue to monitor the performance of its existing commercial activities to manage its financial risk exposure and to review opportunities for new future income generation.</p> <p>Based on the review of the arrangements in place during 2018/19 for the compilation of the MTFP including identified savings, we concluded that the overall risk was sufficiently mitigated and the Council has proper arrangements in this area. However, the Council in its regular updating of the MTFP needs to:</p> <ul style="list-style-type: none"> <li>• identify potential recurrent savings or income generation opportunities, and not just rely on one off accounting adjustments to address the significant savings gap</li> <li>• closely monitor the run rate on its use of usable reserves</li> <li>• reflect the medium-term financial risk exposure on current and future commercial activity.</li> </ul>

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Contract management and monitoring</b></p> <p>In September 2017 the 'lessons learned' review reviewed the events surrounding the procurement, operation and termination of the Amey contract. The report included an Action Plan, which management addressed during 2017/18 and are working towards embedding during 2018/19.</p> <p>We will review the progress made by the Council during 2018/19 to embed the Amey and Zurich Municipal contract management related action plans.</p>	<ul style="list-style-type: none"> <li>Following a legal contractual dispute settled in November 2016, the Authority completed a Lessons Learned review including agreed management actions in September 2017, to address a number of identified weaknesses in relation to contractual management. The Authority acknowledged it needed to improve the robustness of its overarching contract management arrangements with appropriate capacity, capability, performance monitoring and risk and escalation management of major contracts and potential related disputes and litigation.</li> <li>The Council commissioned from Zurich Municipal a Contract Risk Management Review, which was issued on 27 April 2018. The review found that, "the Council has and is making significant changes to how it manages contracts, in response to risk and a desire to implement best practice in some areas." The review did highlight some areas for further improvement, in terms of up to date significant contract risk registers and assessing the embeddedness of the updated annual governance statement process and oversight of how DMTs assure themselves that risks are being managed in significant contracts.</li> <li>The Council has provided evidence that appropriate actions have been taken in response to the report's recommendations. Actions taken include:             <ul style="list-style-type: none"> <li>identification of significant contracts across all services</li> <li>production of Effective Contract Management Guidance note, which has been issued to Corporate Directors</li> <li>Implementation of a single electronic system across Council to capture significant contract information</li> <li>Introduction of regular quarterly reporting through Directorate Management Teams and the Corporate Management Team of significant contracts to enable escalation of issues and concerns</li> <li>Review of the Council's Whistleblowing Policy and development of new Speak up arrangements to support the development of openness and transparency across the Council.</li> </ul> </li> <li>The quarterly review of significant contracts undertaken by the Council, through DMTs and CMTs, indicates that there are currently no significant contract management issues or concerns.</li> <li>During 2018/19 the Council has put significant work into implementing the actions from the lessons learned report. A detailed review was completed by management on the progress made in embedding both the Amey and Zurich Municipal action plans. This process included assigning a RAG rating to the Amey and Zurich action plans to assess the degree by which controls and other measures had been fully embedded during 2018/19. Internal Audit has reviewed and challenged the RAG ratings assigned to the action plan by management. We note that this also includes recommendations and advisory comments from Internal Audit to refine and improve current arrangements as part of the Council's continuous improvement journey in respect of its management of contracts.</li> <li>During 2017/18 and 2018/19 the Audit and Assurance Committee has undertaken a series of senior management deep dives on the significant contract areas of waste management, CNDR PFI and care needs and continuity of care to provide direct assurance to those charged with governance, and in turn receive healthy and constructive challenge, on the progress being made to embed the new contract management arrangements across the Council. The Council has also downgraded its corporate risk on contract management down from a risk score of 15 to 10 as at 31 March 2019.</li> </ul>	<p>We are satisfied that during 2018/19 the Council has embedded the key recommendations in the Zurich Municipal and Amey action plans during 2018/19 and have move to into the next stage where they continue to refine their contract management arrangements.</p> <p>Our assessment of the Council's progress on embedding its new contract management arrangements was subject to a national Grant Thornton moderation panel.</p> <p>Overall, therefore we have removed the former except for qualified VFM conclusion issued in 2016/17 and 2017/18, on the Council's contract management arrangements.</p>

# Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services

## Reports issued

Report	Date issued
Audit Plan	March 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

## Audit Fees

	Planned £	Actual fees £
Statutory audit	88,254	93,254
Audit of Pension Scheme	18,957	28,457
<b>Total audit fees</b>	<b>107,211</b>	<b>121,711</b>

## Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £88,254 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

The additional fee on the Pension Scheme audit related to work carried out on the scheme's Equity Protection instrument and IAS19 work and in assessing the impact of the McCloud Judgement on the Scheme's Present value of past service liabilities.

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	<b>Council Audit</b> £3,000
		<b>Scheme Audit</b> £2,500
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	<b>Council Audit</b> £1,000
		<b>Scheme Audit</b> £500
		We have had to carry out additional work on the equity protection derivative the Scheme has introduced from 1 April 2018.  We have provided IAS19 assurance letters to admitted bodies who requested assurance based on the work we undertook on the scheme audit.
<b>Journal testing</b>	We have had to carry out additional testing as a result of the control weaknesses as outlined on page 9 and 10 of this report on the Council and Scheme audits.	<b>Council Audit</b> £1,000  <b>Scheme Audit</b> £500
<b>Total Council and Scheme audits</b>		<b>£14,500</b>

Fees are subject to ongoing discussion and approval with management and PSAA.

# Reports issued and fees (continued)

We confirm below our fees charged for the provision of audit related and non-audit services.

## Fees for audit related and non-audit services

Service	Fees £
<b>Audit related services</b>	
- Certification of Teachers Pension Claim	4,900
- Harbour Authority Accounts Specified Procedures	1,000
<b>Non-Audit related services</b>	
• - CFO Insights Licence	12,500
• <b>Total audit fees</b>	<b>18,400</b>

## Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor. Note, on the Scheme audit we charged a fee of £5,000 in relation to IAS19 assurance procedures for other bodies admitted to the pension fund

Note the audit fee for the 2016/17 audit objection is £25,500, which has not as yet been billed. The final non-audit fee on contract assurance will not be know until later in the year, but is capped at £54,175 and will be billed in 2019/20.

# Action plan - current year recommendations

We have identified 2 of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

## Assessment

## Issue and risk

## Recommendations

1



### Manual journal review process

- During our journal testing we identified a number of journal entries that had been posted and reviewed by the same individual. Group Finance Managers (GFM) are responsible for the review of journals made into their area. Where a GFM had posted a journal, they had also reviewed them throughout 2018/19 which negates the segregation of duties control.
- We understand this occurred due to staffing changes in the finance department. However without a robust review process there is a risk that fraud and error could go undetected.
- The review process is a control which has been implemented in the absence of a pre-journal posting authorisation control.

- Update the current journal review process to ensure that all journal posted are reviewed.

### Management response

- The Council recognises the dependency on one individual following the delay in recruitment to the Finance Manager – Corporate Accounting role. This was unfortunate but unavoidable. However, there are already significant other management controls in place to give the assurance on the true and fair position of the Council's ledger (set out below).

2



### Journal upload tool

- Following the e5 upgrade in September 2018, the finance team and IT became aware that it was possible for users to “log in” to journal upload and post a journal without entering either their own user id or a password. There was also no requirement to be logged into e5, which meant there was no record of the originating poster where the poster let the tool revert to the default poster which in this case was a member of the IT team or another user if the poster chose another user.
- The Systems team made Finance staff aware of the issue in mid September 2018, it was noted that there was a risk but it was felt that because of the other mitigating controls that are in place the risk of any misstatement of the Accounts was very low.

## Recommendations

- User of the journal upload tool should be reminded of the requirement to enter their unique user ID details. (If any unusual user ID details are identified during the journal review process it should be clearly documented that the reviewer has challenged the prepared of the journal and the results of this challenge).
- Ensure the pending IT upgrade is fully tested prior to being implemented to ensure the adequacy of IT general controls. (We acknowledge that work had been ongoing on the development of the patch during the latter part of 2018/19 and is ready for deployment, which will require user of the journal upload to log in using their unique user name and password).

### Management response

The Systems team, ICT and the software supplier have continued to work on addressing the user id issue since September 2018. A solution has now been developed and is in the final stages of testing. This solution will force a user to enter a log on and password before they can use the spreadsheet upload tool. This solution is due to be deployed from week commencing 29th July 2019. In relation to the mitigating controls management placed reliance on the existing controls relating to those of monthly monitoring returns via DMTs, compilation of the corporate budget monitoring reports quarterly and is subject to the scrutiny of the Director of Finance in preparation for Cabinet. The role of the Deputy S151 Officer and GFMs is to carry out monthly analytical review. The reporting was strengthened in 2018/19 by reporting the Council Plan Delivery Plan report alongside the budget monitoring report on a quarterly basis.

## Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Action plan - follow up of prior year recommendations

We identified the following issues in the audit of Cumbria County Council's 2017/18 financial statements, which resulted in 3 recommendations being reported in our 2017/18 Audit Findings report. *We are pleased to report that management have implemented all of our recommendations.*

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 	<b>Statement of accounts</b> <ul style="list-style-type: none"> <li>Through sample testing of the creditors balance we identified errors, for the second year running, in EPROC system generated creditors. Further work was performed by the Council before the accounts were issued to ensure this balance was materially correct, and further testing was undertaken by the audit team to prove that this was not a material issue. We acknowledge the extensive work to continually reconcile and review the outstanding transactions on the EPROC system. Manual goods receipting input errors are causing the issue. This issue has the potential to cause errors in the future, due to creditors being incorrectly raised.</li> </ul>	<ul style="list-style-type: none"> <li>Improvements were undertaken during 2018/19 to remove/reduce this risk. This also included finance leading a multi service team that reviewed potential issues and where necessary addressed those issues and made improvements to related processes and procedures.</li> <li>As part of creditors testing we selected some EPROC related creditors and did not find any issues in this 2018/19 testing.</li> </ul>
2  ongoing	<b>Value for Money</b> <ul style="list-style-type: none"> <li>The Council's useable reserves have decreased by 6% over the last 3 years, with the Amey settlement having a significant impact in 2016/17. The Council reports on its reserves position on a quarterly basis and is satisfied it has adequate reserves in the short term to meet risks the Council faces but it will have to continue to closely monitor the reserve position in the context of its medium to longer term financial sustainability.</li> <li>The Council has delivered significant cost savings over the past seven budgets and now needs to be more focused on cost and demand management and areas of potential income generation to support sustainable delivery in the longer term.</li> </ul>	<ul style="list-style-type: none"> <li>The reserves position is monitored and reported formally to Cabinet on a quarterly basis. In preparing the Annual Budget and MTFP, a full review and forecast of total reserves is undertaken. The Council Plan (2018-2022) sets out a clear commitment to develop future budgets, which consider the opportunity to maximise income and focus on demand management and cost management of services which as a whole, along with other new ways of working aim to deliver financial sustainability within the challenging context for local government and the uncertainties about future funding.</li> <li>We acknowledge what the Council is doing to secure financial sustainability and this links to our ongoing commentary on VFM to closely monitor the run rate on usable reserves.</li> </ul>

#### Assessment

-  Action completed
-  Not yet addressed

# Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019. Items 1 and 2 adjustments are post balance sheet events. The unaudited accounts published on 31st May 2019 reflected the potential impact of McCloud as contingent liabilities.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet Position £' 000	Impact on total net expenditure £'000
1 <b>Mc Cloud</b> Defined benefit pension scheme - McCloud impact for Cumbria Local Government Pension Scheme	10,656	(10,656)	10,656
2 <b>Mc Cloud</b> Defined benefit pension scheme - McCloud impact for Firefighters Pension Schemes	12,628	(12,628)	12,628
3 <b>Actuarial outturn on investments</b> Defined benefit pension scheme – updated fair value of plan assets	(7,341)	7,341	0
4 <b>Non-Distributed Costs</b> As per the Code, all income and expenditure should be allocated to the appropriate service heading in the CIES with no items left undistributed. The draft financial statements had expenditure of £5.261m and income of £3.695m (net £1.566m) classified as 'non-distributed costs', these have been amalgamated into the 'Other Corporate Items' heading in the CIES. This also impacted on the 2017/18 CIES with £4.788m expenditure moving from 'non-distributed costs' to 'Other Corporate Items'.	1,566 (1,566)	0	0
<b>Overall impact</b>	<b>£15,943</b>	<b>(£15,943)</b>	<b>£23,284</b>

# Audit Adjustments

## Impact of unadjusted misstatements

There is one unadjusted misstatement in relation to the 2018/19 audit, which is outlined below and it is purely a technical accounting matter and has no impact on the total net expenditure position .

Detail	CIES £'000	Balance Sheet £' 000	Management response to not amending
<b>1 Accountable Body Funds</b> The Council is acting as an agent in its Accountable Body relationships, primarily with the Copeland Community Fund and the Growing Places Fund. The Council holds cash balances in ring fenced bank accounts, which have not been presented within the year-end balance sheet (either in cash or elsewhere in the balance sheet). In complying with accounting standards, the correct treatment is to present the year-end balance restricted cash as both a debtor and creditor balance. This has increased both the short-term debtor and creditor balances in the balance sheet, but has not amended the net balance sheet position. This is merely a technical accounting adjustment.	0	14,086 (14,086)	There is a difference of opinion in the accounting treatment of the Accountable Bodies cash balances. This is a non-material amount and is only a matter of classification on the Balance Sheet. We would like to take the time to agree an approach with Grant Thornton for the Accounts for 2019/20 onwards.

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

Detail	Comprehensive Income and Expenditure Statement (£'000)	Statement of Financial Position (£'000)	Action taken in 2017/18 Accounts
<b>1</b> A manual calculation error was identified in 2016/17, in the valuation of one school within the Council's land and buildings balance. The error has led to the Property, Plant and Equipment balance and the Capital Adjustment Account to be overstated by £900,000. Therefore, the total assets and unusable reserves held by the Council are overstated.  The decision to not adjust for this issue does not impact upon our audit opinion.	0	(900) 900	The school was subject to a formal revaluation and the accounts have been updated.  Implemented no further action required.
<b>Overall Impact</b>	£0	£0	

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

## Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements.,
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

### Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



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